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RUEABND/DEA HQS WASHINGTON DC
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SENSITIVE
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DEPT FOR SRAP, SCA/FO, SCA/RA, AND SCA/A
DEPT PASS AID/ASIA BUREAU
DEPT PASS USDA FOR FAS MICHNER
DEPT PASS USTR FOR DELANEY AND DEANGELIS
DEPT PASS TDA FOR STEIN AND GREENIP
DEPT PASS OPIC
CENTCOM FOR CSTC-A, USFOR-A

OSD FOR SEDNEY
TREASURY FOR MNUGENT, ABAUKOL, AWELLER, AND JCASAL
COMMERCE FOR HAMROCK-MANN, DEES, AND FONOVICH

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SUBJECT: Update: Strengthening Afghanistan's Ability to Audit Future Spending

SUMMARY

¶1. (SBU) Finance Minister Zakhilwal is pushing the Afghan Cabinet to re-instate Article 61, which gives the Ministry of Finance internal audit authority over line ministries, a matter of concern to international donors. Afghan ministries' internal audit capacity generally remains weak and hinders Afghanistan's long-term development aims. Over the past five years, the Ministry of Finance has strengthened its internal audit directorate through donor-funded technical assistance and is positioned to take a broader role moving forward. Embassy Kabul is working with the World Bank to coordinate a plan-of-action to reinstate Article 61, including engaging Afghan government decision makers. Once Article 61 is reinstated, the Ministry of Finance will likely provide technical assistance for internal audit (through its Civilian Technical Assistance Plan) to key line ministries (e.g., Ministry of Economy), with support from the World Bank and U.S. Treasury. End Summary.

BACKGROUND AND CONTEXT OF ARTICLE 61

¶2. (SBU) Article 61 of the Public Finance and Expenditure Law stipulates that the Ministry of Finance will audit the financial and accounting affairs of all central line ministries. In 2007, the Central Audit Office (CAO) expressed concern that Article 61 impinged on the CAO's authority as set out under the existing (communist era) legal framework. Former Deputy Minister of Finance (and current Commerce Minister) Shahrani supported this view and encouraged President Karzai to suspend Article 61, which he did. Since then, we understand the CAO has retreated, realizing that control over internal audit activities does not fit into its independent monitoring role.

¶3. (SBU) The Ministry of Finance currently maintains nominal audit control by setting guidelines for finance officers in the line ministries and is still responsible for enforcement of the public financial management law through revenue collection, cash management, payments and financial reporting. While some line ministries have a nascent internal audit function, such activities

are limited and do not function at an acceptable standard.

¶4. (SBU) In contrast, however, significant development has taken place in the Ministry of Finance's Internal Audit Directorate over the past several years. Assisted principally by a World Bank-funded project, Internal Audit has grown from 15 auditors to more than 120.

The number includes several embedded training staff who are audit and IT experts. While the Internal Audit Unit appears to have a well-established sense of mission and a number of technical manuals and handbooks available for use, additional capacity building is necessary to ensure it is prepared to take on its government-wide mandate under Article 61.

STRENGTHENING INTERNAL AUDIT WILL IMPROVE
THE PREVENTION AND DETECTION OF FRAUD

¶5. (SBU) According to an official at the World Bank, one of the most significant problems with financial leakage occurs in procurement. To address this concern, the Ministry of Finance is working to strengthen the procurement law and establish a government-wide, Cabinet-level Internal Audit Committee to investigate allegations of procurement fraud or leakage within line ministries. The committee would be part of a broader approach to reduce corruption and increase financial transparency.

¶6. (SBU) The Finance Ministry will likely use money from the Civilian Technical Assistance Program to hire local and regional advisors to further develop its internal audit capacity. Key donors in this area (World Bank and Treasury) will help establish a good

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technical basis to move this forward. For example, Treasury's Office of Technical Assistance is planning to place at least one Advisor in the Ministry of Finance's Internal Audit Unit to provide professional development and training, counseling and advice to GIROA auditors.

EFFORTS TO RE-INSTATE ARTICLE 61

¶7. (SBU) Finance Minister Zakhilwal agreed to add Article 61 as a key benchmark of the World Bank administered Afghan Reconstruction Trust Fund (ARTF) incentive program. As a result, the Government must reinstate Article 61 (along with meeting several other governance benchmarks) to qualify for ARTF discretionary funding. The World Bank wants reinstatement of Article 61 complete by November/December, although this may be delayed due to the still on-going elections process. Minister Zakhilwal's staff have told Embassy officials reinstatement of Article 61 is under review at the Office of Administrative Affairs. Following this review, the decision for reinstatement will go to the President for signature.

¶8. (SBU) COMMENT: Reinstating Article 61 would be an important step towards a more robust internal audit system throughout GIROA and the Mission pushed hard to have Article 61 reinstatement added as a key benchmark in the ARTF incentive program. International donors are concerned that while the Ministry of Finance provides internal audit for its expenditures which account for roughly 5% of total GIROA expenditures, the remaining 95% are under weak or no internal audit systems. The economic and financial policy working group, in particular Treasury elements, are coordinating a plan of action with the World Bank, including technical assistance, outreach to the Internal Audit Unit, and engaging GIROA decision makers. Once Article 61 is reinstated, we should consider ways for U.S. and other country internal auditors to partner with Afghan-led initiatives to promote information exchange and share best practices. End Comment.

EIKENBERRY